

**NATIONAL GALLERY OF CANADA**  
**UNAUDITED FINANCIAL STATEMENTS**

**QUARTERLY RESULTS**

**Period ended September 30, 2011**

**STATEMENT OF MANAGEMENT RESPONSIBILITY**

Management is responsible for the preparation and fair presentation of these quarterly financial statements of the National Gallery of Canada (the Gallery) in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines are necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Gallery, as at the date of and for the periods presented in the quarterly financial statements.



Marc Mayer  
Director



David A. Baxter  
Deputy Director,  
Administration and Finance

Ottawa, Canada  
November 24, 2011

**STATEMENT OF FINANCIAL POSITION**

(in thousands of dollars)

Unaudited

As at Sept 30,  
2011As at March 31,  
2011

Restated

	As at Sept 30, 2011	As at March 31, 2011 Restated
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 8,919	\$ 9,167
Restricted cash and cash equivalents	14,865	10,841
Accounts receivable	586	1,313
Inventories	625	526
Prepaid expenses	1,052	1,237
Total current	26,047	23,084
Collection	1	1
Capital assets	89,382	91,350
	\$ 115,430	\$ 114,435
<b>Liabilities and Net Assets</b>		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,426	\$ 5,956
Deferred contributions for the purchase of objects for the Collection (Note 5)	4,373	1,607
Deferred contributions for the purchase of capital assets (Note 5)	8,845	7,187
Other deferred contributions (Note 5)	1,531	1,931
Total current liabilities	19,175	16,681
Employee future benefits	2,586	2,586
Deferred contributions for the amortization of capital assets	88,760	90,727
Total liabilities	110,521	109,994
Net Assets		
Unrestricted	4,171	3,703
Investment in capital assets (Note 7)	622	622
Permanently endowed	116	116
Total net assets	4,909	4,441
	\$ 115,430	\$ 114,435

The accompanying notes and schedules form an integral part of the financial statements.

**STATEMENT OF CHANGES IN NET ASSETS**

(in thousands of dollars)

Unaudited

	Six months ended September 30, 2011				Year Ended
	Unrestricted	Investment in capital assets	Permanently endowed	Total Net Assets	March 31, 2011 Restated
Net assets, beginning of the period	\$ 3,703	\$ 622	\$ 116	\$ 4,441	\$ 4,420
Excess of revenue over expenses for the period	468	-	-	468	21
Net assets, end of the period	\$ 4,171	\$ 622	\$ 116	\$ 4,909	\$ 4,441

The accompanying notes and schedules form an integral part of the financial statements.

**STATEMENT OF OPERATIONS**

(in thousands of dollars)

Unaudited

	3 Months	6 Months	Year
	Ended Sept 30, 2011	Ended Sept 30, 2011	Ended March 31, 2011 Restated
Revenues			
Parliamentary appropriations (Note 6)	\$ 11,171	\$ 23,847	\$ 51,394
Operating revenue and contributions (Schedule 1)	3,631	5,598	7,869
Total revenues	14,802	29,445	59,263
Expenses			
Collection			
Operations	2,096	3,802	7,226
Art purchases	665	2,834	8,368
Total - Collection	2,761	6,636	15,594
Outreach	4,485	7,903	14,086
Accommodation	5,398	9,556	18,740
Administration	1,987	4,882	10,822
Total expenses (Schedule 2)	14,631	28,977	59,242
Excess of revenue over expenses for the period	\$ 171	\$ 468	\$ 21

The accompanying notes and schedules form an integral part of the financial statements.

**STATEMENT OF CASH FLOWS**

(in thousands of dollars)

Unaudited

	3 Months Ended Sept 30, 2011	6 Months Ended Sept 30, 2011	Year Ended March 31, 2011 Restated
Operating activities			
Cash received from clients	\$ 3,343	\$ 5,653	\$ 7,266
Parliamentary appropriations received	12,856	23,863	45,110
Cash paid to employees and suppliers	(14,857)	(28,288)	(53,049)
Interest received	117	155	234
Total cash flow from operations	1,459	1,383	(439)
Capital activities			
Acquisition of capital assets	(411)	(932)	(5,933)
Total cash flow from capital activities	(411)	(932)	(5,933)
Investing activities			
Increase in restricted cash and cash equivalents	(3,250)	(3,844)	(234)
Total cash flow from investing activities	(3,250)	(3,844)	(234)
Financing activities			
Funding for the acquisition of capital assets	1,295	2,590	5,898
Restricted contributions and related investment income	366	555	1,580
Total cash flow from financing activities	1,661	3,145	7,478
Total cash flow	(541)	(248)	872
Cash, beginning of period	9,460	9,167	8,295
Cash, end of period	\$ 8,919	\$ 8,919	\$ 9,167

The accompanying notes and schedules form an integral part of the financial statements.

## SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS

Six months ended September 30, 2011

### 1. NOTICE TO READER

The unaudited quarterly financial statements must be read in conjunction with the most recent annual audited financial statements and with the narrative discussion that follows.

### 2. AUTHORITY, OBJECTIVES AND ACTIVITIES

The National Gallery of Canada (the Gallery) was established on 1 July 1990 by the *Museums Act* as a Crown corporation under Part I of Schedule III to the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*.

The Gallery's mandate as stated in the *Museums Act* is to develop, maintain and make known throughout Canada and internationally, a collection of works of art, both historic and contemporary, with special but not exclusive reference to Canada, and to further knowledge, understanding and enjoyment of art in general among all Canadians. The Gallery's operations include its affiliate, the Canadian Museum of Contemporary Photography (CMCP).

The Gallery's operations are divided into four mutually supportive activities which work together to meet all aspects of its mandate. These activities are:

#### Collection

To acquire, preserve, research and document historic and contemporary works of art in order to represent and present arts heritage. It includes curatorial research, acquisitions and preservation.

#### Outreach

To foster broad access nationally and internationally to the Gallery's collection, research, exhibitions and expertise. It includes exhibitions, both in the National Capital Region and other venues in Canada and abroad, educational programming and publications, communications and marketing activities designed to reach as wide an audience as possible, as well as all fundraising activities.

#### Accommodation

To provide secure and suitable facilities which are readily accessible to the public, for the preservation and exhibition of the national collections.

#### Administration

To provide direction, control and effective development and administration of resources.

### 3. BASIS OF PRESENTATION

These unaudited financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) for government not-for-profit organizations (GNFPO). The Gallery has prepared the financial statements applying the Section 4200 series of PSAS. The Gallery applies the deferral method of accounting for contributions for not-for-profit organizations.

The comparative figures for the year ended March 31, 2011 have been restated to reflect the Gallery's changes in accounting policies.

### 4. CHANGE IN ACCOUNTING POLICIES

Effective April 1, 2011, the Gallery adopted Public Sector Accounting Standards (PSAS) including the 4200 series of accounting standards applicable for Government Not-For-Profit Organizations. This change has been applied retrospectively and prior periods have been restated.

#### Employee Future Benefits

The Gallery provides severance benefits to its employees based on years of service and final salary. The financial statements reflect the Gallery's estimate of the accumulated liability for these benefits. Under PSAS section 3255, Post-employment Benefits and Termination Benefits, government organizations are required to recognize an actuarially determined liability and expense for future benefits. The Gallery is consulting with an actuary to assist in estimating the accrued benefit obligation

which should be recognized for these future benefits. This accounting policy change will be adopted for the first time in the year end financial statements, and the quarterly financial statements do not include the impact of the new accounting estimate.

### Financial Instruments and Exposure to Risk

In June 2011, the CICA issued a new standard, PSAS section 3450 Financial Instruments. The Public Sector Accounting Board undertook to develop a new standard to improve the reporting of derivative and non-derivative financial instruments in financial statements prepared in accordance with the CICA Public Sector Accounting Handbook. This accounting policy change will be adopted for the first time in the year end financial statements, and the quarterly financial statements do not include the impact of the new accounting policy.

## 5. DEFERRED CONTRIBUTIONS

(in thousands of dollars)	Contributions for the purchase of objects for the Collection	Contributions for the purchase of capital assets	Other Contributions	As at Sept 30, 2011	As at March 31, 2011 Restated
Beginning balance	\$ 1,607	\$ 7,187	\$ 1,931	\$ 10,725	\$ 10,491
Appropriations received in the period	6,000	2,590	-	8,590	13,898
Non-Government contributions received in the period	-	-	555	555	2,242
	7,607	9,777	2,486	19,870	26,631
Amounts recognized as revenue in the period	(3,234)	-	(955)	(4,189)	(9,973)
Purchase of capital assets in the period	-	(932)	-	(932)	(5,933)
Ending balance	\$ 4,373	\$ 8,845	\$ 1,531	\$ 14,749	\$ 10,725

The Gallery receives an \$8,000,000 annual appropriation for the purchase of objects for the Collection. The Gallery accumulates these funds in a separate account which it uses to acquire, when opportunities arise, historically important, unique and high quality works that strengthen the collection.

The Gallery is in receipt of appropriations that have been identified by Treasury Board as funding for projects of a capital nature. These amounts are initially credited to deferred contributions received for the purchase of capital assets and are transferred to deferred contributions for the amortization of capital assets when the purchases are made.

Other contributions received from non-government entities that are restricted for a specific purpose are deferred, and recognized as revenue in the period that the related expenses are incurred.

## 6. PARLIAMENTARY APPROPRIATIONS

(in thousands of dollars)	3 Months Ended Sept 30, 2011	6 Months Ended Sept 30, 2011	Year Ended March 31, 2011 Restated
<b>For operating and capital expenditures</b>			
Main estimates	\$ 10,151	\$ 20,303	\$ 41,266
Supplementary estimates			1,836
	10,151	20,303	43,102
Appropriations deferred for the purchase of capital assets	(1,295)	(2,590)	(5,898)
Deferred contributions used for the amortization of capital assets	1,450	2,900	5,573
	10,306	20,613	42,777
<b>For the purchase of objects for the Collections</b>			
Main estimates	4,000	6,000	8,000
Appropriations recognized from prior periods	1,238	1,607	2,224
Appropriations deferred to future periods	(4,373)	(4,373)	(1,607)
	865	3,234	8,617
<b>Total Parliamentary appropriations</b>	<b>\$ 11,171</b>	<b>23,847</b>	<b>\$ 51,394</b>

## 7. INVESTMENT IN CAPITAL ASSETS

(in thousands of dollars)	6 Months Ended Sept 30, 2011	Year Ended March 31, 2011
Capital asset additions	\$ 932	\$ 5,898
Less: capital assets financed through Appropriations	(932)	(5,898)
	0	0
Deferred contributions used for the amortization of capital assets	2,900	5,573
Amortization of capital assets	(2,900)	(5,573)
<b>Net change in investment in capital assets</b>	<b>\$ 0</b>	<b>\$ 0</b>

**SCHEDULE 1 - OPERATING REVENUE AND CONTRIBUTIONS**

Unaudited (in thousands of dollars)	3 Months Ended Sept 30, 2011	6 Months Ended Sept 30, 2011	Year Ended March 31, 2011 Restated
<b>Operating revenue:</b>			
Bookstore and publishing	\$ 905	\$ 1,390	\$ 1,862
Admissions	1,015	1,326	1,302
Parking	316	521	835
Memberships	123	178	456
Rental of public spaces	224	345	854
Sponsorships	25	325	456
Education services	11	71	96
Art loans – recovery of expenses	19	32	169
Travelling exhibitions	11	70	118
Audio guides	129	153	67
Food services	33	43	54
Interest	117	155	234
Other	22	34	10
	2,950	4,643	6,513
<b>Contributions:</b>			
From National Gallery of Canada Foundation	-	-	622
Other	681	955	734
	681	955	1,356
	\$ 3,631	\$ 5,598	\$ 7,869

**SCHEDULE 2 - EXPENSES**

Unaudited (in thousands of dollars)	3 Months Ended Sept 30, 2011	6 Months Ended Sept 30, 2011	Year Ended March 31, 2011 Restated
Salaries and employee benefits	\$ 6,092	\$ 11,606	\$ 22,129
Purchase of works of art for the collection	665	2,834	8,368
Amortization of capital assets	1,450	2,900	5,573
Payments in lieu of taxes	1,129	2,258	4,376
Professional and special services	829	1,486	3,858
Repairs and maintenance of buildings and equipment	1,026	1,917	3,623
Protective services	757	1,429	2,541
Utilities, materials and supplies	475	1,011	2,147
Freight, cartage and postage	848	1,097	1,765
Travel	153	322	985
Publications	335	551	972
Cost of goods sold – bookstore	296	577	927
Advertising	287	460	890
Rent	120	240	373
Communications	75	120	264
Library purchases	49	86	253
Rentals of equipment	28	46	170
Fellowships	9	28	26
Miscellaneous	8	9	2
	\$ 14,631	\$ 28,977	\$ 59,242



## MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL STATEMENTS

The Gallery has identified the following five strategic priorities. The Corporate Plan Summary 2011-12 to 2015-16 sets out the goals and objectives in relation to each of these strategic priorities.

- **Funding** – to maximize contributions (sponsorships and donations in cash and in-kind) and self-generated revenue.
- **Access and Digital Innovation** – to be accessible within Canada and abroad through innovative and engaging Gallery outreach programs and through use of web-based communication tools.
- **Diversity** – to respond to the changing face of Canada by adapting the development of programming and promotion to the shifting needs of Canadians, and engaging in a focused employee recruitment program.
- **Infrastructure** – to optimize space efficiency for art storage, gallery and programming spaces and accommodation. Information is managed as a strategic resource supported by enterprise-wide integrated processes and enabling technologies.
- **Strengthening the Collection** – to enhance and capitalize on the strengths of the national collection, while focusing on excellence.

Significant highlights for the six months ended September 30<sup>th</sup>, 2011 are as follows.

### Operations

The Gallery achieved a net operating surplus of \$468,000 for the first six months of 2011-12. Given the cyclical nature of the Gallery's operations, with summer months generating significant revenue from the Special Exhibition, a small surplus is not unusual. However, the Gallery continues to face significant financial pressures in the current fiscal year, both in terms of revenues and expenditures. The Gallery continues to take a very serious approach to monitoring its financial situation – and to taking corrective action where necessary—with the aim of balancing its budget and better positioning the corporation to meet the financial challenges ahead.

### Revenue

Total revenue from all sources for the six month period was \$29,445,000. Parliamentary appropriations of \$23,847,000 for the first six months are in line with the annual Corporate Plan target of \$49,324,000. Self-generated operating revenues earned were \$4,643,000, representing 16% of total resources, exceeding the target of 13%. The Gallery's annual operating revenue is highly dependent on attendance at its special exhibitions, particularly its primary summer exhibition. Many revenue centres performed well during the year to date due to strong visitor attendance. Other contributions of \$955,000 were recognized, representing 3% of total resources versus a target of 4%.

### Expenditures

Total expenses for the six months ended September 30, 2011 were \$28,977,000 which is in line with the annual Corporate Plan annual forecast of \$58,049,000.

Salary and benefit costs for the six month period were \$11,606,000 and are in line with prior year expenses for the same period. Due to cost containment measures announced in Budget 2010 that applied to all government departments, agencies and Crown corporations including the Gallery, cost pressures on the salary envelope are expected to increase. Effective for fiscal year 2010-11 and on-going years, Government funding to the Gallery was reduced by \$314,000; as a result, increases for its negotiated labour contracts must be managed by the Gallery through internal re-allocation. This cost pressure will increase over the term of the existing collective agreements. Since 2009, through a variety of reduction measures and realignments, the Gallery reduced its establishment by a net reduction of 42 positions.

The Gallery's fixed costs for its facilities are not indexed against inflation and price increases are expected for heat, hydro and outsourced service contracts for the 2011-12 fiscal year. Professional and special service cost increases are also expected. In addition, the minimum wage in the province of Ontario resulted in an 8% increase in the guard contract. Protection services costs are therefore expected to increase accordingly. All of these price pressures will be funded through internal reallocations.

### Art Acquisitions

Parliament has fixed a separate appropriation of \$8,000,000 per year for the exclusive purpose of art acquisitions and other costs associated with this activity. The Gallery accumulates these funds until works of art are purchased; any balance in the acquisitions budget at the end of the year is available for purchases in subsequent years. During the six month period, the Gallery purchased works of art in the amount of \$2,834,000. The balance of deferred contributions for the purchase of objects for the Collection as at September 30, 2011 was \$4,373,000.

**Capital Funding**

Capital resources have been prioritized to the most urgent projects. The Gallery is in receipt of a base appropriation of \$1,000,000 annually for capital expenditures. This annual allocation has been supplemented with targeted capital funding announced in Budget 2008. The Gallery has spent \$932,000 on capital improvements in the first six months of 2011-12. Amounts deferred for the purchase of capital assets as at September 30, 2011 was \$8,845,000. These funds will be used to resolve the most pressing areas of capital deterioration that pose a risk to the Collection and to the health and safety of visitors and staff. Lower-priority projects have been deferred or funded through internal reallocations.